

Message Text

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TAGS: EGEN, ECON, XC, XE, XP

SUBJECT: OFFICE OF ECONOMIC POLICY WEEKLY STATUS REPORT
MAY 17, 1977

1. SUMMIT, CIEC, OECD MINISTERIAL (CONFIDENTIAL)

PRESIDENT CARTER REVERSED HIS PREVIOUS POSITION ON
OFFICIAL DEVELOPMENT ASSISTANCE (ODA) AT THE SUMMIT AND
AGREED TO SEEK A SUBSTANTIAL INCREASE IN US AID
APPROPRIATIONS OVER THE YEARS 1976-81. THE SIZE OF THE
INCREASE WILL BE REVEALED AFTER CONGRESSIONAL CONSULTA-
TIONS WHICH ARE BEING UNDERTAKEN THIS WEEK. A SIZEABLE
PART OF THE INCREASE WILL BE THE US CONTRIBUTION TO THE
CAPITAL RESOURCES OF THE WORLD BANK.

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THE PRESIDENT ALSO AGREED TO US PARTICIPATION IN THE
SPECIAL ACTION PROGRAM FOR THE LEAST DEVELOPED COUNTRIES,
WHICH WILL BE IN ESSENCE ADDITIONAL AID TO THE LLDCS FROM
FY 78 AND 79 APPROPRIATIONS.

THE SUMMIT ALSO REACHED AGREEMENT ON THE KIND OF
COMMITMENT THE G-8 ARE PREPARED TO MAKE ON "A" COMMON
FUND.

THE STRONGEST DEBATE AT THE SUMMIT WAS ON TRADE POLICY;

PARTICULARLY THE FRENCH AND BRITISH WERE PROTECTIONIST MINDED. WHAT APPEARED TO BE INNOCUOUS QUALIFICATIONS OF THE ANTI-PROTECTIONIST LANGUAGE OF THE COMMUNIQUE ARE SUBSEQUENTLY INTERPRETED BY SOME OF THE EUROPEANS AS ENDORSEMENT OF RESTRICTIVE POLICIES. COOPER ASKED THAT A CIRCULAR BE SENT TO THE FIELD TO GIVE OUR INTERPRETATION.

WITH CONCERTED G-8 VIEWS ON ODA VOLUME AND QUALITY, SPECIAL ACTION PROGRAM AND COMMON FUND, TO WHICH CAN BE ADDED THE CONTINUATION OF THE ENERGY DIALOGUE, TRADE AND INVESTMENT, THE G-8 PUT TOGETHER A PACKAGE ON SOME OF THE CENTRAL CIEC ISSUES TO WHICH THE G-19 CAN POINT TO CALL CIEC A SUCCESS. LDCS WILL HAVE OBTAINED BENEFITS WHICH THEY WOULD NOT HAVE OBTAINED OTHERWISE, IN ADDITION TO AGREED LANGUAGE TO PUSH IMPORTANT NEGOTIATIONS IN OTHER FORUMS. IT IS AS YET UNCERTAIN WHETHER G-19 WILL BE WILLING TO SEE IT THAT WAY AND THERE WILL UNDOUBTEDLY BE HARD BARGAINING, FIRST AT SENIOR OFFICIALS MEETING ON MAY 26-27 AND THEN AT MINISTERIAL IN TWO WEEKS FROM NOW.

PREPARATIONS FOR THE OECD MINISTERIAL IN THE SECOND HALF OF JUNE ARE ALSO PROGRESSING, ENCOMPASSING THE FOLLOW-UP TO THE SUMMIT ON ECONOMIC RELATIONS AMONG OECD COUNTRIES (E.G. YOUTH UNEMPLOYMENT) AND LONG-TERM STRATEGY FOR CONFIDENTIAL

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NORTH-SOUTH ECONOMIC RELATIONS AFTER CIEC.

2. ADB CHANGE OF TACTICS ON RESUMPTION OF RELATIONS WITH VIETNAM CAUSES CONCERN (CONFIDENTIAL)

THE ADB HAS RECENTLY INFORMED US THEY WANT TO GO AHEAD AND LIFT THE SUSPENSION OF THEIR FINANCIAL TRANSACTIONS WITH VIETNAM, WITH THE UNDERSTANDING, HOWEVER, THAT ACTUAL DISBURSEMENTS OF FUNDS WOULD NOT OCCUR UNTIL AFTER A CASE BY CASE REVIEW OF EACH OF THE LOANS APPROVED DURING THE PERIOD OF THE FORMER REPUBLIC OF SOUTH VIETNAM. THIS APPROACH CONTRASTS WITH THE EARLIER POLICY OF FIRST REVIEWING THE PROJECT LOANS AND THEN ANNOUNCING THE RESUMPTION OF RELATIONS. THE PRACTICAL EFFECT OF THE BANK'S CHANGE OF COURSE IS ONE OF TIMING -- FORMAL ANNOUNCEMENT OF RESUMPTION OF RELATIONS COMES MUCH SOONER THAN WE HAD ANTICIPATED. THIS DEVELOPMENT HAS ALARMED TREASURY WHICH FEELS SUCH ACTION WOULD AROUSE THE CONGRESS TO EARMARK OR CUT OUR CONTRIBUTIONS TO THE ADB IN THIS YEAR'S PROPOSED LEGISLATION. CERTAINLY YOUR OWN CONVERSATION WITH CONGRESSMAN LONG THIS WEEK, IN WHICH

HE STRONGLY OPPOSED IFI LENDING TO VIETNAM, GIVES WEIGHT TO THESE FEARS. IN ORDER TO DEAL WITH THIS SITUATION,

WHILE AT THE SAME TIME NOT JEOPARDIZING OUR POSITION WITH THE VIETNAMESE IN OUR PARIS NORMALIZATION TALKS, WE INSTRUCTED OUR EXECUTIVE DIRECTOR IN MANILA TO RAISE THE MATTER WITH BANK PRESIDENT YOSHIDA.

THE ISSUE, HOWEVER, HAS BEEN POSTPONED UNTIL YOSHIDA'S RETURN FROM JAPAN AND KOREA AT THE END OF THE MONTH AND AFTER VICE PRESIDENT KRISHNA MOORTHY HAS HAD THE OPPORTUNITY TO CONFER WITH US OFFICIALS IN WASHINGTON NEXT WEEK.

3. EPG MEETING - MAY 16 (CONFIDENTIAL)
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THE MAY 16 EPG AGENDA COVERED A REPORT BY STR STRAUSS ON SHOES AND COLOR TV, A DISCUSSION ON US POLICY FOR DIRECT INTERNATIONAL INVESTMENT, AND OPIC.

REPORTEDLY BLUMENTHAL AND SCHULTZE EXPRESSED CONCERN THAT US-JAPAN AGREEMENT ON COLOR TVS DOES NOT PROVIDE A GROWTH FACTOR FOR ASSEMBLED AND PARTIALLY ASSEMBLED TVS (SEE ALSO NEXT ITEM.) A PAPER ON INVESTMENT WAS PRESENTED WHICH GAVE THREE OPTIONS: 1) PRESUMPTIVE NON-INTERVENTION (FEW GOVERNMENT INITIATIVES TO ALTER PRESENT POLICIES); 2) ACTIVE NEUTRALITY (ELIMINATE POLICIES WHICH DISTORT INVESTMENT FLOWS); AND 3) SELECTIVE PRIORITIES (USE INVESTMENT POLICY TO PURSUE ECONOMIC AND FOREIGN POLICY OBJECTIVES). A RATHER UNSATISFACTORY DISCUSSION LED TO A CONSENSUS WHICH WAS ESSENTIALLY A COMBINATION OF OPTIONS 1 AND 2. UNDER SECRETARY COOPER HAS NOW ASKED THE REGIONAL BUREAUS TO REVIEW THE PAPER AND GIVE HIM COMMENTS. ON OPIC THE DISCUSSION WENT QUITE WELL ALTHOUGH AGAIN IT IS NOT QUITE CLEAR WHAT WAS DECIDED. IT WAS AGREED THAT WE SHOULD SEEK TO ALTER THE PRIVATE PARTICIPATION REQUIREMENTS OF THE PRESENT LEGISLATION. INSTEAD, THERE SHOULD BE STATUTORY AUTHORITY FOR OPIC TO SHARE RISKS WITH PRIVATE INSURANCE COMPANIES INsofar AS IT DOES NOT CONFLICT WITH THE PURSUIT OF ITS NATIONAL OBJECTIVES. ON COUNTRY COVERAGE, COOPER DID NOT SEE ANY REASON FOR RESTRICTING THE PRESENT COVERAGE BUT OTHERS HAD DIFFERENT VIEWS. IN THE END WHAT IS LIKELY TO EMERGE IS SUFFICIENT FLEXIBILITY SO THAT NO MAJOR EA INTERESTS ARE AFFECTED. THERE WAS SUPPORT FOR OPIC'S INVOLVEMENT IN MINERALS AND PETROLEUM DEVELOPMENT. ON SELF SUFFICIENCY, VIEWS TENDED IN THE DIRECTION THAT OPIC SHOULD STRIVE FOR SELF SUFFICIENCY AS LONG AS IT DOES NOT CONFLICT WITH ITS NATIONAL OBJECTIVES. IT WAS ALSO AGREED TO RECOMMEND THE ADDITION OF ANOTHER PUBLIC MEMBER

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TO THE BOARD. WE HAVE ALSO LEARNED THAT THE WHITE HOUSE IS NOT GOING TO ADDRESS THESE RECOMMENDATIONS UNTIL THE NEW BOARD IS IN PLACE.

4. AGREEMENTS ON SHOES AND TVS REACHED (CONFIDENTIAL)

WE HAVE CONCLUDED AN OMA ON NON-RUBBER FOOTWEAR WITH KOREA AND THE ROC. THE FOUR YEAR AGREEMENT TAKES EFFECT JUNE 28, LIMITS TOTAL KOREAN EXPORTS DURING THE FIRST YEAR TO 33 MILLION PAIRS (VS 44 MILLION IN 1976) AND ROC EXPORTS TO 122 MILLION PAIRS (VS 156 MILLION IN 1976) AND INCLUDES A SMALL GROWTH FACTOR. SHOES ALREADY IN THE "PIPELINE" WILL BE ALLOWED ENTRY BUT AMOUNTS EXCEEDING A TWO MONTH AVERAGE WILL BE COUNTED AGAINST THE RESTRAINT LEVELS. EITHER OR BOTH COUNTRIES CAN INITIATE CONSULTATIONS WITH THE US IF THEY BELIEVE THAT THEY HAVE BEEN PLACED IN AN "INEQUITABLE POSITION VIS-A-VIS OTHER MAJOR EXPORTING COUNTRIES". FINALLY IN THE AGREED MINUTES ATTACHED TO THE AGREEMENT, KOREA AND THE ROC AGREED THAT THERE WILL BE "NO MAJOR SHIFTS ... IN THE TYPE, MATERIAL OR PRICE RANGE" OF EXPORTS TO THE US.

WE EXPECT THAT AN OMA ON COLOR TVS WITH JAPAN WILL BE SIGNED ON FRIDAY. UNDER THIS THREE YEAR AGREEMENT, WHICH JAPAN PREFERS TO CALL A VOLUNTARY RESTRAINT AGREEMENT, JAPAN WILL LIMIT EXPORTS OF FULLY AND PARTIALLY ASSEMBLED COLOR TVS TO 1.75 MILLION A YEAR (VS 2.8 MILLION IN 1976). JAPAN WILL HAVE THE RIGHT OF INITIATING CONSULTATIONS WITH THE US IF OTHER COUNTRIES EXPAND THEIR EXPORTS TO THE DETRIMENT OF JAPANESE MANUFACTURERS.

5. STEEL CONSULTATIONS IN THE OECD (LIMITED OFFICIAL USE)

AFTER SEVERAL POSTPONEMENTS THE OECD COUNCIL AGREED ON MAY 11 TO THE SECGEN'S CONVENING AN AD HOC GROUP ON STEEL. THE US HAS STRONGLY FAVORED THIS PROPOSAL BUT BOTH THE CONFIDENTIAL

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JAPANESE AND THE EUROPEAN COMMUNITY HAD SOME RESERVATIONS. THERE MAY STILL BE DIFFICULT NEGOTIATIONS WITH THE COMMUNITY AND THE JAPANESE ON THE TERMS OF REFERENCE OF THIS GROUP. WE WANT TO DISCUSS SUCH THINGS AS MARKETING AND PRICING POLICIES DURING PERIODS OF SLUGGISH DEMAND WHILE OTHERS WANT TO RESTRICT THE GROUP'S WORK TO FACTUAL TREND ANALYSIS.

6. ASEAN

(A) FOREIGN MINISTRIES TO BE PRIME ASEAN ACTION POINTS
(LIMITED OFFICIAL USE)

AT AN ASEAN SENIOR OFFICIALS MEETING HELD ABOUT TWO WEEKS AGO IN JAKARTA, IT WAS DECIDED THAT FOREIGN MINISTERS SHOULD HAVE PRIMACY IN HANDLING ASEAN AFFAIRS. THIS DECISION WILL INFLUENCE OUR OWN PROPOSED ECONOMIC CONSULTATIONS WITH ASEAN IN WHICH WE HAD PREFERRED THE ECONOMIC MINISTERS TAKE THE LEAD. IN THIS REGARD WE ARE STILL AWAITING A REPLY TO OUR EARLIER QUERY IN MANILA ON THE GENERAL TOPIC OF COMPOSITION AND LEVEL OF DELEGATIONS FOR OUR FORTHCOMING TALKS.

(B) ASEAN-NEW ZEALAND HOLD FURTHER TALKS
(LIMITED OFFICIAL USE)

THE THIRD SESSION OF THE ASEAN-NEW ZEALAND DIALOGUE WAS HELD IN JAKARTA MAY 9-10. PRINCIPAL PURPOSE OF THE MEETING WAS TO REVIEW THE FIVE ASEAN PROJECTS FINANCED BY NEW ZEALAND (ANIMAL HUSBANDRY, TRADE EXPANSION, MENTAL HEALTH, REFORESTATION AND TIMBER UTILIZATION). EXPANSION OF ASEAN ACCESS TO THE NEW ZEALAND MARKET WAS A SPECIAL CONCERN TO THE SOUTHEAST ASIANS, ALTHOUGH THE NEW ZEALANDERS SAID THE ASEAN STATES HAD DONE LITTLE THEMSELVES IN THIS AREA. TO BE RESPONSIVE, WELLINGTON WILL SEE WHAT IT CAN DO TO EDUCATE ASEAN STATES ON NEW
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ZEALAND'S IMPORT REGULATIONS AND ASSIST THEM IN SOME TYPE OF MARKETING EFFORT.

(C) ASEAN AIDE MEMOIRE ON US TAX DEFERRAL
(LIMITED OFFICIAL USE)

EMBASSY MANILA LAST WEEK WAS ASKED ABOUT THE STATUS OF ASEAN'S EARLIER AID MEMOIRE ON US TAX DEFERRAL OF UNREMITTED INVESTMENT PROFITS. THE MANILA APPROACH SEEMS TO REPRESENT SPECIFIC PHILIPPINE CONCERNS AS MUCH AS THOSE OF ASEAN. OUR EMBASSY WAS TOLD, FOR EXAMPLE, THAT FINANCE MINISTER VIRATA NOW APPRECIATES MORE FULLY THE CONTRIBUTIONS OF PRIVATE FOREIGN INVESTMENT AND IS MORE CONCERNED WITH ITS CONTRIBUTION TO THE TREASURY THAN WITH THE ISSUE OF EQUITY AND CONTROL.

7. GOOD NEWS FOR AMERICAN TAXPAYERS OVERSEAS
(UNCLASSIFIED)

WITH THE PASSAGE OF THE ECONOMIC STIMULUS BILL IN BOTH HOUSES YESTERDAY, THE RETROACTIVE APPLICATION OF CHANGES IN SECTION 911 OF THE INTERNAL REVENUE CODE PASSED LAST YEAR HAS BEEN ELIMINATED. THUS THE EFFECTIVE DATE OF THE INCREASE IN TAX LIABILITY OF PRIVATE AMERICAN CITIZENS OVERSEAS IS JANUARY 1, 1977. THIS MAY BE CHANGED AGAIN WHEN THE OMNIBUS TAX REFORM PROPOSAL OF THE ADMINISTRA-

TION WHICH IS TO BE SUBMITTED BY OCTOBER 1 IS ACTED UPON
BY CONGRESS.

8. GSP (LIMITED OFFICIAL USE)

STR HAS ACCEPTED FOR CONSIDERATION ON AN URGENT BASIS
A PETITION SEEKING THE REMOVAL OF MICROSCOPIC SLIDES
AND GLASSES FROM GSP. THE REMOVAL OF THIS ITEM WOULD
AFFECT KOREA AND THE ROC AMONG OTHERS. WE AND EB ARE
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WORKING TO ENSURE THAT STR DOES NOT APPROVE THE PETITION
WITHOUT INTERAGENCY REVIEW.

9. STABEX TRANSFERS (LIMITED OFFICIAL USE)

THE EC HAS ANNOUNCED THAT ITS FIRST TRANCHE OF 1976
LOME CONVENTION COMMODITY STABILIZATION (STABEX) TRANSFERS
WILL TOTAL DOLLARS 26.7 MILLION. THREE EA COUNTRIES,
FIJI, WESTERN SAMOA AND TONGA WILL RECEIVE DOLLARS 2.3
MILLION BECAUSE OF REDUCED EXPORT RECEIPTS FOR COPRA.

CHRISTOPHER

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